

# Forth Estuary Transport Authority Report on the 2010/11 Audit



Prepared for the Forth Estuary Transport Authority Board and Controller of Audit  
August 2011

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# Key Messages

We have audited the 2010/11 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the Forth Estuary Transport Authority (the authority). This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

## Key outcomes from the 2010/11 audit

Overall we found the financial stewardship of the authority during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- we have given an unqualified opinion on the financial statements of the authority;
- the authority experienced a smooth transition towards the adoption of International Financial Reporting Standards (IFRSs) and the authority's financial statements are now fully IFRS compliant;
- final accounts preparation procedures and working papers were of a high standard, as were responses to audit queries;
- matters arising from the audit have been included in the ISA 260 report to those charged with governance on the 2010/11 audit;
- many aspects of a sound corporate governance framework are in place. These have been strengthened by the adoption of a Local Code of Corporate Governance;
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the authority's internal control system; and
- We are also pleased to note the continued successful operation of the bridge during the unprecedented spell of severe weather in 2010/11 with only relatively minor disruption, thanks to the effective contingency arrangements and efforts of staff to maintain service delivery.

## Outlook

Key issues for the authority in the future include:

- delivering continuous improvement in service delivery and use of resources in the face of increasing financial constraints; and
- continuing to effectively manage the day to day operation of the bridge in the face of uncertainty over future funding levels and the future role of the authority in relation to the Forth Replacement Crossing.

Key issues for the attention of members are outlined in an Action Plan included at appendix A of this report.

2010/11 is the final year of our audit appointment and we would like to thank the officers of the authority and the City of Edinburgh Council for their support and co-operation over the past few years.

# Introduction

1. This report summarises the findings from our 2010/11 audit of the authority. The scope of the audit is set out in our Annual Audit Plan which was submitted to the authority in December 2010.
2. The financial statements of the authority are the means by which it accounts for the stewardship of the resources made available and its financial performance in the use of those resources. It is the responsibility of the authority to prepare financial statements that give a true and fair view of its financial position and of its income and expenditure for the year.
3. The members and officers of the authority are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the authority's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of assets and interests;
  - the authority has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption; and
  - the authority has proper arrangements for securing best value in its use of resources.

# Financial Statements

4. In this section we summarise the key outcomes from our audit of the authority's financial statements for 2010/11. We also summarise key aspects of the authority's reported financial position and performance to 31 March 2011.
5. We audit the financial statements and give an opinion on whether they:
  - give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code), of the state of the affairs of Forth Estuary Transport Authority as at 31 March 2011 and of its income and expenditure for the year then ended;
  - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
  - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
6. We also review the Annual Governance Statement by considering the adequacy of the process put in place by the authority to obtain assurances on the systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the authority.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of the authority for 2010/11.
8. We were satisfied with disclosures made in the Annual Governance Statement and the adequacy of the process put in place by the authority to obtain assurances on the systems of internal control.
9. The authority's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers provided to support the financial statements were of a high standard as were the responses to audit queries. The transition exercise for the adoption of IFRSs was also conducted to a high standard.
10. The accounts were certified and available for publication on 16 August 2011, well before the target date of 30 September 2011, and were presented to members at the 24 August 2011 Board Meeting. The financial statements are an essential means by which the authority accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

## Accounting issues

11. Local authorities in Scotland are required to follow the Code of Practice on local authority accounting in the United Kingdom (the Code). The Code is based on International Financial Reporting Standards (IFRSs) and 2010/11 is the first year that local authorities are required to

be fully IFRS compliant. This presented a significant challenge for both accountants and auditors. In line with good practice the authority prepared a restated opening balance sheet and submitted this for review in line with the recommended timetable. Full shadow accounts for 2009/10 were made available for audit review in February 2011. These were supported by a comprehensive package of working papers and fully documented audit trail. Excellent progress was achieved through this exercise and its completion to a high standard greatly facilitated the authority's move to full IFRS accounts for 2010/11.

12. The code advocates a number of presentational changes to the primary financial statements and these are detailed in the Foreword to the financial statements. The purpose of the authority's various reserves is also detailed in the Notes to the Financial Statements.
13. The authority has adjusted the financial statements to reflect audit findings. As is normal practice, immaterial unadjusted errors have been reported to the Treasurer and the authority via our letter issued in line with International Standard on Auditing 260 (ISA 260) - 'Communication of audit matters to those charged with governance'. Details of accounting issues which arose during the course of our audit are summarised below.
14. The transition to IFRS has resulted in an infrastructure asset, previously included in the Balance Sheet as capital expenditure, being reclassified as revenue. Expenditure on the A8000 upgrade/M9 spur was previously classified as a non-current asset and capitalised. The City of Edinburgh Council were agents for the project, however funding was provided through the authority and the Scottish Government. Reimbursements of expenditure to the City of Edinburgh Council were previously classified as capital, when in fact they should have been revenue. As a result, a number of adjustments were made that affected the Balance Sheet, Comprehensive Income and Expenditure Statement and Cash Flow Statement. These adjustments are detailed in Note 29 to the Financial Statements. The most significant adjustment is the reduction of £38.120 million in the authority's net assets.
15. The impact on the authority's net assets in relation to the above adjustment is largely offset by the revised accounting arrangements for Government grants. £40.766 million was removed from the authority's long term liabilities in 2009/10, the same year that the £38.120 million was removed from non-current assets. This is because grants are now required to be recognised as income as soon as all conditions are met.
16. For re-valued assets, a transfer between the Revaluation Reserve and Capital Adjustment Account should be carried out which represents the difference between depreciation based on the re-valued carrying amount of the asset and the depreciation based on the asset's historical cost. This transfer has not been carried out to date on the authority's revalued assets. However, the accumulated difference in depreciation and subsequent transfer will be calculated in 2011/12 in conjunction with the authority's next revaluation exercise.
17. A potential operating lease has not been disclosed in the financial statements on the basis of a confidentiality agreement with the lessee. The omission is not considered material.



## Financial Position

18. The outturn for the year is included in the Movement in Reserves Statement and shows an increase in Total Usable Reserves of £0.693 million (2009/10: Decrease of £1.454 million). Grant-in-Aid received for 2010/11 was £15.244m. Expenditure against this grant was £14.551m and the increase in Total Usable Reserves is attributable to under spends in revenue of £0.419m and capital of £0.274m.
19. The revenue under spend is due mainly to savings in employee and insurance costs, and through support costs being less than budgeted.
20. The capital under spend is primarily due to the Scottish Government advancing £1.400 million grant from 2011/12 as a result of Transport Scotland reprofiling capital grant between 2010/11 and 2011/12 to meet the forecast capital over spend notified to the authority at its meeting in October 2010. Without this advance, capital expenditure would have been over grant by £1.126m. The authority anticipated meeting a capital expenditure over spend from its reserves in 2010/11. However, as a result of the capital grant advance and commensurate reduction in 2011/12, the obligation to meet a proportion of capital expenditure from the reserve will transfer to 2011/12.
21. The Total Usable Reserves at the beginning of the year amounted to £5.459 million (2009/10: £6.913 million) which, taken with the under spend for the year results in Total Usable Reserves carried forward of £6.152 million.

## Legality

22. Through our planned audit work we consider the legality of the authority's financial transactions. In addition the Treasurer confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the authority's management team, the financial transactions of the authority were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Outlook

23. As with 2009/10, the economic recession has impacted heavily on public sector expenditure and constraints on expenditure are likely to increase significantly as the Government seeks to reduce its debt burden. The authority continues to face some difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures and the impact of age and traffic volumes on the bridge.
24. Funding arrangements continue to provide management with challenges. Funding for 2012-2015 has still to be agreed with the Scottish Government.

**Key Risk Area, Action 1**

# Governance and Accountability

## Introduction

25. In this section we comment on key aspects of the authority's governance arrangements during 2010/11. We also provide an outlook on future governance issues, including our views on potential risks.

## Overview of arrangements in 2010/11

26. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The authority has a responsibility to put in place arrangements for the conduct of the affairs of the organisation, to ensure the legality of activities and transactions, and to monitor the adequacy and effectiveness of those arrangements.

## Structure and policies

27. Corporate governance is about direction and control of organisations. In June 2010 the authority's internal auditor recommended that the Local Code of Corporate Governance as presented to the authority in June 2006 be updated and presented to the authority for approval. We are pleased to note that the authority has revised its Local Code of Corporate Governance to formally adopt the revised Corporate Governance Framework which is now in place and which was produced in line with the revised guidance published by CIPFA/SOLACE in 2007/08. The revised Local Code was approved by the authority Board in June 2011.

## Roles and relationships

28. The authority is comprised of elected members from four constituent authorities but is a body corporate in its own right, separate from those authorities. It is incumbent on all members to ensure that, in the context of their service to the authority, all of the necessary disclosures have been made to ensure that the risk of conflicts of interest is adequately managed. There is a link against each member on the authority's website to the register of members' interests on the relevant council website. The Clerk to the Authority will write annually to each member reminding them that the register should include any interests to be registered in respect of the authority.
29. The Forth Estuary Transport Authority Order 2002 requires that the positions of Convener and Vice-Convener of the authority be rotated between the City of Edinburgh Council and Fife Council, over two-year periods. Accordingly, from 1 July 2011, the position of Convener of the authority is held by Fife Council and the Vice-Convener by the City of Edinburgh Council.

30. A programme of work to update or amend the authority's Standing Orders and Scheme of Delegation has commenced. It is proposed that the Standing Orders and Scheme of Delegation be reviewed and revised then brought to the Board for approval later this year. Staff policies, procedures and guidelines will also be reviewed and updated. The intention is to include the policies, procedures and guidelines in the new Operations Manual as part of the Quality Management System which is currently being implemented. A target date for full implementation by April 2013 is proposed.
31. The authority has also set an objective to modernise pay and harmonise employees' conditions of service. A target has been set to try to achieve change by April 2013.
32. The Business Improvement Project was approved in June 2009 with work commencing in September 2009. The authority continues to work towards ISO 9001: 2008 and Investors in People accreditation. Through the Forth Road Bridge Project Improvement Programme Plan, the authority is focusing on its Visions, Aims and Values and is realigning its engineering and operational activities towards achieving its objectives. The timescale for the plan has increased from two to three years, to three to four years, at an estimated total cost of £311,000.

#### **Key Risk Area, Action 2**

### **Education and Contact Centre**

33. In October 2010, proposals were approved by the authority to make land and access rights available to Transport Scotland for the construction of a permanent structure on land adjacent to the Forth Road Bridge car park. Significant progress has been made in the design of the new building which will include purpose-built facilities for the Forth Road Crossing's Contact and Education Centre and Traffic Scotland's National Control Centre, including an exhibition space with the potential to provide a legacy as a visitor centre for all three bridges (the development will bring up to fifty jobs to the local area and position the Forth Road Bridge site as the focal point for visitors and for Scotland's trunk road network).
34. The authority has approved the sale to the Scottish Ministers of the land required to build the Contact and Education Centre at the price of £1.00 with the authority's legal costs incurred in completing the transaction to be funded separately by the Scottish Ministers. The agreement will grant the Scottish Ministers servitude rights of access to use the car parks on a non-exclusive basis and to park cars in the car park. The agreement will also grant the Scottish Ministers the right to lay, maintain, repair, renew, replace and remove a fibre optic cable across the car parks to serve the Scottish Ministers' building.
35. Once construction is complete, the authority will be responsible for any maintenance and repair of the car parks with the Scottish Ministers liable to pay a fair and equitable proportion of these costs. Land owned by the authority at Bullyeon Road will be redeveloped for use as a contractors' compound, with costs of up to £100,000 being met by Transport Scotland.

36. A pre-emption will apply to the agreement to sell the land for the new building to ensure that the facility can not be sold on to another party without the authority or its statutory successor having right of refusal.

## Internal Audit

37. Internal audit holds a key role in the authority's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The authority's internal audit service is provided by the City of Edinburgh Council's Chief Internal Auditor. Our review of internal audit was conducted as part of the audit of the City of Edinburgh Council. The review found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained. We also reviewed aspects of the internal audit services' work specific to FETA.

## Systems of internal control

38. The authority's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of the review of the adequacy of governance arrangements.
39. Our review of these systems was conducted as part of the audit of City of Edinburgh Council, supplemented by specific audit work on the authority's financial statements. Overall there are no material issues or concerns in relation to the main financial systems.
40. An Annual Governance Statement was included within the financial statements. The authority has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the authority has been nominated to review the effectiveness of the Local Code and will report annually to the authority Board.
41. The review of the effectiveness of the authority's governance framework, including the system of internal financial control, is informed by the Chief Engineer and Bridgemaster's Certificate of Assurance on internal control, the work of managers, and internal and external auditors.
42. The Treasurer has provided the Chief Executive with a statement on the adequacy and effectiveness of the authority's internal financial control system for the year ended 31st March 2011. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the authority's internal control system. In accordance with good practice, the statement was approved by the Board in June 2011. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Plant and machinery asset register

43. Existing procedures for maintaining or updating the asset register for plant and machinery could be strengthened to reduce the risk that plant and machinery may be incomplete, obsolete or incorrectly categorised. We understand that procedures are being revised and will form part of the new system which is scheduled to be in place by April 2013.

**Key Risk Area, Action 3**

## Procurement

44. We noted in 2009/10 that there was no authorised signatory list in place for procurement. We are pleased to note that the authorised signatory list has been updated. However, our testing found one invoice that had been passed for payment without being authorised by a senior officer.

**Key Risk Area, Action 4**

## Service level agreements

45. A range of support functions are provided by the City of Edinburgh Council to the authority. Currently, the arrangements under which these services are provided are not subject to formal Service Level Agreements (with the exception of the management of the authority's investments in the City of Edinburgh Council's Loans Fund). Both the authority and the service provider would benefit from formal documentation of their roles and responsibilities and the standards of service to be provided.

**Key Risk Area, Action 5**

## Prevention and detection of fraud and irregularities

46. The authority has arrangements in place to prevent and detect fraud, corruption and inappropriate conduct. These arrangements include standing orders and financial regulations, a whistle blowing policy, an anti-fraud and corruption policy and codes of conduct for elected members and staff. We are pleased to note that the Board continues to have appropriate arrangements in place to minimise the risk of fraud and corruption. Each year, Audit Scotland gathers information on such cases of fraud identified by audited bodies. In 2010/11 there were no such cases reported for the authority.

## Outlook

47. The authority continues to face significant challenges including:
- the maintenance of bridge operations in the face of key risks arising from the unpredictability of maintenance requirements, difficulties in estimating contract costs, continuing inspection and monitoring of the main cables, and the need to ensure the long term structural integrity of the bridge anchorages; and
  - the decision to build a second Forth crossing will have a significant impact on the operations of the existing bridge with a reduction in the volume of traffic, the resulting need to review maintenance priorities and a possible further review of funding.

48. These areas and the controls put in place by management to address the issues are likely to be subject to on-going audit review in 2011/12.

## Final Remarks

49. The members of the Forth Estuary Transport Authority are invited to note this report. We would be pleased to provide any additional information that members may require.
50. The co-operation and assistance given to us by officers of the authority and the City of Edinburgh Council is gratefully acknowledged.

# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	<p><b>Funding</b></p> <p>Funding for 2012-2015 has still to be agreed with the Scottish Government.</p> <p><b>Risk</b></p> <p>Funding arrangements continue to provide management with challenges.</p>	On-going discussion with Scottish Government/ Transport Scotland.	Chief Engineer and Bridgemaster / Treasurer	March 2012
2	32	<p><b>Business Improvement Project</b></p> <p>The timescale for the implementation of the Business Improvement Project has increased from two to three years, to three to four years at an estimated total cost of £311,000.</p> <p><b>Risk</b></p> <p>Slippage in the implementation of the Business Improvement Project may result in additional costs.</p>	Any additional costs will be closely monitored and reported.	Chief Engineer and Bridgemaster	April 2013
3	43	<p><b>Asset Register</b></p> <p>Existing procedures for maintaining or updating the asset register for plant and machinery could be strengthened.</p> <p><b>Risk</b></p> <p>Plant and machinery may be incomplete, obsolete or incorrectly categorised.</p>	Procedures are being revised and will form part of the new system which is scheduled to be in place by April 2013.	Chief Engineer and Bridgemaster	April 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	44	<p><b>Procurement</b></p> <p>Our testing identified one invoice that had been passed for payment without being authorised by a senior officer.</p> <p><b>Risk</b></p> <p>Procurement is not correctly authorised.</p>	<p>Scheme of Delegation is programmed to be updated by the end of 2011.</p> <p>Procurement Guidelines are being reviewed as part of Quality Management implementation.</p> <p>An authorised signatory list is in place.</p>	Chief Engineer and Bridgemaster	<p>End of 2011</p> <p>April 2013</p>
5	45	<p><b>Service Level Agreements</b></p> <p>Service level agreements between the Forth Estuary Transport Authority and the City of Edinburgh Council should be formalised and presented to the authority Board for their approval.</p> <p><b>Risk</b></p> <p>The authority cannot monitor the performance of services provided by the City of Edinburgh Council.</p>	<p>Work is on-going.</p> <p>A Service Level Agreement (dated June 2009) is in place for the management of the authority's investments in the City of Edinburgh Council's Loans Fund.</p>	Treasurer / Chief Engineer and Bridgemaster	March 2012